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Agricultural Situation

Argentina's Economic Crisis: For Better AND Worse

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Report Highlights:
Agriculture has emerged as a bright spot in an otherwise still depressed Argentine economy. Profitability for soybeans has increased 52%, and for corn 185%, in dollar terms. This increase is due primarily to the 70% currency devaluation, and to a lesser extent the recent increase in commodity prices. However, continued economic and political uncertainty combined with a shortage of available land will limit short term expansion in grain and oilseed area and production.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Buenos Aires [AR1], AR

Argentina's Economic Crisis: For Better AND Worse

Summary: The agricultural sector in Argentina appears to be emerging as one of the few "winners" in the midst of more generalized economic depression, realizing significant benefits from the nearly 70% devaluation of the peso. The sharp increase in world grain and soybean prices over the past several months has further contributed to an already healthy bottom line. While tremendous economic and political uncertainty remains, the stabilization of the exchange rate over the past few months, resolution of the farm debt/ag input crisis, and a lower-than-expected inflation rate has been a boon, especially to producers of grains and oilseeds. August data on direct and overhead costs against futures prices indicate profitability for 2002/2003 soybeans and corn is up 52% and 185%, respectively. With agricultural exports already accounting for 55% of Argentina's foreign exchange earnings, the export tax of 20% on grain and oilseed products is bringing in an estimated $2 billion per year to the treasury. Despite the dearth of land available for widespread expansion, a number of farmers and analysts expect some additional planting to take place in more marginal areas over the next few years, and for input use to increase. Though still marginal for the country as a whole, the increased cash flow to farmers across the country is already having a positive impact in rural areas. **End Summary**.

Discussions with numerous agricultural producers and analysts over the past couple of weeks show a general consensus that Argentina's beleaguered agriculture sector is recovering from the battering it received in the first half of the year from rising export taxes, frozen bank accounts, deep debt, and the total collapse of credit. While "confidence" and "optimism" are by no means the words to describe the sentiments of local farmers, the almost universal expressions of unmitigated despair and dire predictions of great damage to Argentine agriculture are gone. The combination of cautious hope and dreaded uncertainty most farmers feel is clearly expressed in the following quote from the President of the Argentine Beef Industry Association, "Despite Argentines' blunders and our capacity for self-destruction, the industry is alive and has great potential."

At the annual "No-Till" conference held recently in the cereals and oilseed trading center of Rosario (at which attendees had the option of paying the $US 300 registration fee in grain), producers and agribusiness representatives voiced significant consensus and gave anecdotal evidence that the agriculture sector is doing well, at least for the moment. When asked about the net gain or loss to producers taking into account the stronger dollar (appreciation of 250%), export taxes on grain and oilseeds of 20-23%, inflation to date of 38%, and higher costs for diesel and other inputs, the net result was that farmers were receiving "nearly 200%" more pesos than from the year before. They reported this windfall was enough to allow most farmers to repay their debt, and ease or eliminate credit needs for next year's crop. Others noted that many producers arrived at the conference in their new trucks, and that Argentine farm equipment manufacturers, many of which had found it increasingly difficult to survive under the policy of the 1 dollar = 1 peso "convertibility" policy, were completely sold out through March of 2003, with orders paid in advance. Still others noted the stark contrast of today's situation with that of 1997-2001, when Argentina's agriculture did well despite an over-valued exchange rate and historically low commodity prices.

This new environment of higher prices, and one in which neither export taxes nor exchange rates have changed much in the past three months, contrasts sharply with what farmers were facing just two or three months ago as they were planting wheat in June/July. The continued confusion and uncertainty over debt financing at that time resulted in a drop of 12 percent in planted area, and an industry estimated drop of nearly 40% in the use of chemical inputs. As expected, the most affected areas were in the northern, more marginal wheat producing regions. Industry sources report area planted in the heart of Argentina's wheat belt in central and southern Buenos Aires province saw just a 5% reduction, with input use at close to normal. In addition to the above advantages, farmers' grain is more flexible and liquid than their restricted bank accounts. Many producers are storing grain on their farms in temporary "plastic worms," selling it only as needed. The industry estimates that roughly 40% of the 2002 harvest has yet to be sold, a fact not lost on the Argentine Treasury which is collecting an estimated $2 billion on grain and oilseed export taxes alone.

The following table shows the tremendous increased incentives from 2001 to 2002 for corn (an increase of 180% profit **in dollar terms**) and soybeans (an increase of 52% profit **in dollar terms**) , as farmers prepare to plant these crops in the next 30-60 days.

Prices in US$ per Hectare (August 2002/August 2001)

Crop/Year	Direct Costs (1)	Gross Margin (2)	Overhead Costs (3)	Net Margin (Gross - O.Costs)
Soy '02	115	313	60	**253**
Soy '01	140	318	152	**166**
Diff. '02/'01	**-18%**	**-2%**	**-60%**	**52%**
Corn '02	188	405	60	**345**
Corn '01	220	273	152	**121**
Diff. '02/'01	**-15%**	**48%**	**-60%**	**185%**

Source: FAS based on Margenes Agropecuarios Statistics

Crop Prices: Soy - $138 per metric ton– May 2003 (includes the 23.5% export tax)
Corn- $ 82 per metric ton– April 2003 (includes the 20% export tax)

1) direct costs (seed, chemical inputs, manual labor) have dropped 15-18% in dollar terms.
2) commercialization costs (freight, taxes, drying) included in the gross margin, have dropped 52% in dollar terms
3) overhead costs (professional advice, communications, etc) have dropped 60% in dollar terms.

Offsetting this rosey picture is the tremendous uncertainty that still exists in all aspects of economic, financial, social, and political life here. Bank accounts are still controlled, interest rates extremely high (60%), credit severely restricted, and speculation rife that the government may yet again raise export taxes. On the social side there is great concern about soaring crime, which has become increasingly violent, and has in some cases targeted farmers who have just sold grain. Underlying all is a pervasive cynicism and frustration over what many refer to as the "corrupt political class," and that the quality of leadership has any chance of improving. Thus, while this positive outlook for agriculture has caused FAS/Buenos Aires to increase previous estimates for area planted to corn, and to predict an increase in total area planted to crops, the significantly higher cost of corn production vis a vis soy is still expected to result in a reduction in 2002 v 2001 corn area . Furthermore, the improved financial situation for farmers is not likely to result in a major increase in production or planted area for the simple reason that most of the good land is already in production. However, some producers report the economic incentives, even prior to the spike in prices over the past few months, encourage expanding planting in more marginal areas in the north and northwestern parts of the country. One producer reported that the low yield in these areas of roughly 2.2 tons/hectare was still attractive with an estimated cost of production of about 1 ton per hectare.

The continued deepening of recession and higher unemployment in the overall economy has caused many to start referring to agriculture as an "island of hope." More cash in farmers' hands is already making itself felt in rural Argentina, fostering rural industries and creating employment. Recent travels to fruit and livestock growing areas indicate substantial export benefits accruing to both sectors. Fruit packers are taking advantage of the lower costs (e.g. the daily wage for packers has fallen from $U.S. 12-15 to about $4) to aggressively market their product, and in some cases are planting more exportable varieties. A major canned fruit exporter estimates his exports will quadruple in 2002 to $8 million. Some of the leading beef processors have increased their operating hours from 1.5 to 3 shifts per day, and at least one is building on expanded capacity. Even dairy production, one of the least profitable areas, is experiencing healthy increases in exports. On the other hand, the lack of a credit and a working financial system prevents others from taking advantage of the favorable export situation. One producer of high quality wood flooring was unable to realize a sale for the sole reason that he could not finance the shipment.

To conclude, the overall agriculture sector in Argentina appears to be emerging as one of the few "winners" in the midst of more generalized economic depression. Clearly, the fact that producers have not had to change how they work or make additional investments (as opposed to industry or food manufacturing) to benefit from the devaluation has been a distinct advantage. As a result, agriculture has become more important to the overall economy and the budget, contributing to Argentina's trade surplus ($8 billion through August 2002, due to fewer imports), and higher tax receipts (up 29% over the same period in 2001, due to export taxes and inflation). For example, the recent 3 million ton combined increase in Argentina's estimated corn and soy crops implies an extra $500 million for the sector, and an additional $100 million for state coffers. Nevertheless, uncertainty and doubt continue to take their toll; despite a slight shift in planting intentions in recent weeks, farmers on balance are still choosing the cheaper, less risky soybean over the higher but dearer profitability offered by corn.